

**Guidance for Preparation of
State Annual Reports**

on the

Clean Water State Revolving Fund Program

FINAL

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**Region III
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Philadelphia

Guidance for Preparation of State Annual Reports on the Clean Water State Revolving Fund Program

Introduction

The purpose of this document is to provide states with additional guidance on the preparation of Annual Reports. This guidance should be used in conjunction with the “Initial Guidance for State Revolving Funds” (January 1988), “SRF Program Implementation Regulations” (March 1990), “SRF Program Questions and Answers” (July 1990), SRF Program Guidance Memoranda, the “Region III Guidance for Preparation of Intended Use Plans and Associated Materials Related to Clean Water State Revolving Fund capitalization Grant Applications” (October 1998) and “Chapter 6 of the State Water Pollution Control Revolving Fund Management Manual” (August 1989).

Since the inception of the program, Clean Water State Revolving Fund (CWSRF) program portfolios have grown to include hundreds of millions of dollars. Those funds include a diverse mixture of capitalization grant funds, state match, loan repayments, bond proceeds, interest and investment earnings. EPA’s desire is to have States develop and document a carefully thought out management strategy for those funds to achieve environmental benefits and protect the long term financial viability of the program. While states have significant flexibility and discretion in providing information in a format and a manner they desire, the Annual Report should include the following elements:

- S Description of how states have accomplished short- and long-term goals of the CWSRF;
- S Description of environmental benefits of funded projects;
- S Outline of how the state has attained and maintained compliance with the Clean Water Act (CWA), SRF regulations, grant conditions, and Federal cross-cutting requirements;
- S Discussion of how the state has used its CWSRF to address national and state water quality management priorities, including those outlined in applicable State/EPA water management agreements;
- S Description of the extent to which CWSRF financial operating policies have provided for the long term fiscal health of the fund;
- S Detailed financial information demonstrating current status and trends; and
- S Outline of management challenges and programmatic changes.

Generally, provisions in this guidance described as “must” are intended to be treated as program requirements, while those described as “should” are intended to be treated as recommendations for state consideration.

Submission of the Annual Report

States must submit to EPA an Annual Report, beginning with the first Federal fiscal year after it receives payments under Title VI of the CWA. Because all states are receiving payments from EPA, an Annual Report must be submitted each Federal fiscal year. Note that this requirement does not end when new Federal capitalization grants end. At that point, certain grant-related information may no longer need to be included in Annual Reports.

States must submit an Annual Report to EPA according to the schedule established in the EPA-approved Operating Agreement (OA). The OA is generally made part of the capitalization grant agreement by reference.

States should submit to EPA an Annual Report within 90 days of the end of the reporting fiscal year. For reporting purposes, states have negotiated and EPA has accepted that Annual Reports will be submitted to EPA within 90 days from the end of the state's fiscal year.

Contents of the Annual Report

A. Accomplishment of Short Term Goals

1. This section of the Annual Report should specifically discuss how the state has made significant progress toward successful completion of short-term goals described in its Intended Use Plan (IUP).
2. The Annual Report should describe how the activities of its CWSRF contributed environmental results, including state-wide water quality priorities:
 - S For example, the state may wish to provide a two to three page discussion of the environmental benefits which typical funded projects provided or are expected to provide. This discussion could be supported by a detailed explanation of the environmental problems solved (or to be solved) in a limited number of funded projects. The state could include a brief description of each of these projects.
 - S As applicable, this could include a brief discussion of progress made in targeting projects in priority watersheds, the funding of nonpoint source and estuary projects, establishment of a working relationship with other state departments and agencies (e.g., NPS, estuary, wetlands, agriculture) to participate in the process and, if applicable, the status of development of an integrated project priority system.
 - S As applicable, the state should specifically discuss progress made toward linking its program to TMDLs, and watershed assessments, and other accountability requirements of State/EPA Performance Agreements and the Government Performance Results Act.

3. The state should describe its measures and success in complying with programmatic requirements itself (for direct state procurement) or, as applicable, assuring compliance of assistance recipients, particularly related to environmental review and minority and women owned business enterprise (MBE/WBE) utilization. .
4. As appropriate, the Annual Report should discuss the state's follow-up on findings from prior year EPA Program Evaluation Reports (PERs) and independent audits.
5. The state should discuss the rate of CWSRF loan obligations and, as applicable, programmatic issues that may affect this rate (e.g., application procedures, marketing, small community technical assistance).

B. Accomplishment of Longer Term Goals

1. This section should include a discussion on the progress being made to achieve the long-term goals described in the state's IUP.
2. The state should discuss its progress in using CWSRF funding to protect the public health and the environment.
3. As applicable, the state should describe new initiatives implemented or under development during the year intended to meet identified state long term goals.
4. The state should discuss management measures it took to assure the long-term fiscal health of the fund. As appropriate, the state should discuss its use of financial planning models.
5. The state should discuss the assistance it provided to communities with financial difficulties in meeting water quality objectives. If applicable, the state could describe special measures it took or may be under consideration to make projects more affordable (e.g., funding incentives, technical assistance, coordination with other funding sources).

C. Assurances

1. Consistent with 40 CFR 35.3165, the OA, and applicable grant conditions, the state must provide assurances in the Annual Report that it is:
 - a. Properly applying the EPA-approved State Environmental Review Process (SERP) to section 212 defined wastewater treatment projects receiving assistance from the Fund;
 - b. Diligently working to expend all monies in its CWSRF in an expeditious and timely manner and/or making sure that a well thought out plan or strategy exists for the expenditure of all the funds in its CWSRF;
 - c. Accepting Federal grant payments in accordance with the payment schedule in the capitalization grant agreement and depositing its match on or before the date on which quarterly grant payments are made;
 - d. Pursuant to 40 CFR 35.3165, entering into binding commitments equal to 120% of Federal grant payments within one year;
 - e. Providing information for the Clean Water On-Line (CWOL) system in a timely manner;
 - f. Submitting to EPA an annual Financial Status Report (FSR) SF-269. The annual FSR is due 90 days after the end of each state fiscal year. The final FSR on the grant is due 90 days after all funds are drawn from the capitalization grant;
 - g. Submitting its semi-annual Federal Cash Transaction Report SF-272 (FCTRs);
 - h. Preparing a program audit for the reporting period; and
 - i. Submitting the quarterly reports on MBE/WBE utilization in a timely manner.
2. The state should assure EPA that it has implemented good project management techniques. Including project activity spreadsheets, charts or tables in the Annual Report is one method to demonstrate appropriate project management. Summaries of programmatic compliance will expedite capitalization grant closeout. Information which the state should consider for inclusion include the following:
 - S Satisfaction of the equivalency requirements for those projects receiving funds directly made available by the capitalization grant and entering into binding commitments prior to October 1, 1994 (e.g., the percentage of funds for collection systems, dates of performance certifications);
 - S Deposit of state match;
 - S MBE/WBE participation;
 - S Identification of communities which received loans;
 - S Assistance amounts;
 - S Binding commitment dates;
 - S Construction start dates;

- S Initiation of operations dates;
- S Type of assistance provided; and
- S Interest rate and maturity of loans.

D. Funding of Nonpoint Source and Estuary Projects

If applicable, the Annual Report should provide a discussion of the nonpoint source and estuary projects which received CWSRF funds during the reporting period, including:

1. The type of project (e.g., cropland BMPs, animal BMPs, silviculture BMPs, urban sources/stormwater, ground water protection/constructed wetlands, brownfields, underground storage tanks, landfills, septic tank remediation, habitat protection/restoration).
2. The number of loans and the total dollar amount obligated:
 - S By type of project;
 - S By funding mechanism (e.g., direct loan program, linked deposit program, other intermediary, such as a county).

(Note: The state may have included a general discussion of the relationship of NPS CWSRF funding activities to overall state water quality management activities/environmental results in another section of the Annual Report. As applicable, this section of the report is intended to provide more detailed information on specific NPS loan activity during the reporting period.)

E. Minority/Women Business Enterprise Compliance

1. The state should include a discussion in the Annual Report of its procedures to assure compliance with MBE/WBE program requirements. Specifically, the state should describe how it explains the six affirmative steps outlined in 40 CFR 35.3145 to assistance recipients, monitors their implementation, and, if necessary, takes corrective action.
2. The Annual Report should describe MBE/WBE accomplishments for the reporting period. This discussion should compare the negotiated fair share objectives to actual amounts achieved.

F. Use of Available Funds

1. The Annual Report must identify and discuss the state's use of all available funds for CWSRF projects during the reporting period.
2. If the state had submitted a plan for the non-immediate use of available funds, the Annual Report should discuss the state's progress in implementing the plan.
3. If funds were not used as quickly as was planned, the state should discuss methods it is considering to increase the use of available funds.

G. Fund Financial Assistance

1. Binding Commitments
 - a. In accordance with 40 CFR 35.3135, the state must demonstrate that it has entered into binding commitments to provide assistance equaling 120% of the amount of each grant payment within one year after receiving the grant payment.
 - b. The state should demonstrate compliance with the binding commitment requirement by providing charts or tables. Such charts or tables could include project names, dates and amounts of grant payments, dates and dollar amounts of binding commitments entered into for the reporting period and the amount of loans closed for all projects receiving funds from its CWSRF. The charts and tables should be supported by narrative in the Annual Report.
 - c. If the state is using binding commitment letters (BCLs), it should discuss the time frame related to closing loans. As appropriate, the state should discuss measures it is taking to move projects toward construction initiation and, if appropriate, substitution of projects which may be needed to comply with the 120% binding commitment requirement. (Note that such substitution need not result in the termination of BCLs to projects which are not making appropriate progress toward construction.)
 - d. Program administration costs should be included as part of the binding commitment presentation.

2. Sources of Funds

- a. The state should provide a brief narrative, supported by charts or tables, which discusses the sources of funds in the state's CWSRF for the reporting period. This should include capitalization grant funds awarded, ACH payments accepted during the reporting period, state match, excess state match, Title II transfer funds, investment earnings, interest, and loan principal and interest repayments in the fund.
- b. If applicable, the state should separately report the amount of administration fees collected during the year and cumulatively. The state should also report the amount expended from the administration fee account and briefly describe activities supported by the expenditures.

3. Cash Draws and Disbursements

- a. The state should provide a brief narrative, supported by charts and tables, which discusses cash draws and funds disbursed from the state's CWSRF to loan recipients and for program administration costs.
- b. The cash draw chart or table should demonstrate that cash was drawn from the Federal ACH-Payment System in accordance with the rules of cash draw (40 CFR 35.3160) and proportionality (40 CFR 35.3155).

4. Financial Statements

- a. The Annual Report must include financial statements prepared according to generally accepted accounting principles (GAAP), including a balance sheet; statement of revenues, expenses, and changes in fund balances; and a statement of cash flows for the reporting period. Preferably, the states should submit a financial statement audit report of the SRF as an attachment to the Annual Report. Such reports should be consistent with the SRF Audit strategy outlined in EPA SRF Policy Memorandum 98-1.
- b. The balance sheet must present the end-of-year balance of assets or resources of the fund and the liabilities or obligations of the state's CWSRF including the fund equity.
- c. The Statement of Revenues, Expenses, and Changes in Fund Balances must present earned interest from investments, interest earned on outstanding loans and any interest from any guarantee reserve fund.

- d. The Statement of Cash Flows must present the sources and uses of the cash for the operations, financing and investing activities of the state's CWSRF.
 - e. Overall, the financial statements should accurately portray and reflect the financial condition of the state's CWSRF and should be presented as a proprietary fund under accounting standards established by the Governmental Accounting Standards Board. In addition, a fair presentation includes all notes and disclosures relating to the information contained in the financial statements.
 - f. As a supplement or attachment, the state should prepare a reconciliation of amounts reported in the Annual Report for disbursements and revenues to the audited financial statements.
3. Cashdraws

The Annual Report should discuss actual cashdraws (outlays) and compare them to cashdraw projections. If applicable, the state should identify the reasons for differences that exceed five percent.

H. Conditions of the Grant

The Annual Report should include a discussion on how the state met the conditions of the capitalization grant agreements. If the conditions have not been met, the state should fully describe its progress toward compliance with the conditions. (In some cases, the state may discuss satisfaction of certain grant conditions in conjunction with other sections of the Annual Report.)

I. Program Changes

- 1. The Annual Report should discuss program changes made during the reporting period. This would include a discussion of projects added or deleted to the IUP (if not previously reported), projects which were delayed, loan amount changes, and the reasons for project changes.
- 2. In addition, this section of the Annual Report should also include a discussion of modifications to the state's goals and objectives and program improvements. If applicable, the state should describe changes to state law affecting the program.

(Note: As applicable, the state may wish to cross-reference discussion of program changes that may have been discussed in other sections of the Annual Report.)

J. Charts

At a minimum, charts in the Annual Report should include:

1. A listing of point source, NPS, and estuary projects, including names, assistance amounts, binding commitment dates, construction start dates, initiation of operation dates, type of loans, interest rate on loans, and the date loans mature.
2. Information related to administrative expenditures, program income, and associated fees (e.g., loan closing charges, repayment surcharges). If the state collected fees, it should discuss whether the amount of fees were included in the loan, the balance of fees available, and the use of fees both directly for CWSRF administrative as well as other associated water quality management programs.
3. Binding commitments by quarter and by fiscal year. Program administration should be included as a binding commitment.
4. Binding commitments with respect to the Federal payment.
5. Source and allocation of funds by quarter.
6. Cumulative ACH payment schedule. The current year portion should be shown by quarter.
7. Proportionate Federal share of cash draws by quarter.
8. Total disbursements for projects and administrative costs, as they relate to the state making cash draws.
9. Cumulative loan principal and interest repayments. The current year portion should be shown by quarter.
10. Cumulative interest income on investments. The current year portion should be shown by quarter.

(Note: Example charts are in the appendix.)

APPENDIX
ANNUAL REPORT GUIDANCE

Region III

EXAMPLE FINANCIAL CHARTS

- (1) Source of Funds, Including ACH Payment Schedule
- (2) Binding Commitments (A: Loans from Capitalization Grants)
- (3) Binding Commitments (B: Loans from Repayments)
- (4) Binding Commitments by Quarter, Including BC Letters (Not Closed Loans)
- (5) Binding Commitments: Cumulative by Year
- (6) Loan Agreements to Accompany BCL Chart (Section 212 Projects, Nonpoint Source Activities)
- (7) Binding Commitments with Respect to Payments (A: Loans from Capitalization Grants)
- (8) Binding Commitments with Respect to Payments (B: Loans from Repayments)
- (9) Disbursements (A: Loans from Capitalization Grants)
- (10) Disbursements (B: Loans from Repayments)
- (11) Administrative Costs – Current Year and Cumulative
- (12) Administrative Costs – Additional Detail and Reconciliation
- (13) Funds Status and Reconciliation to Financial Status
- (14) Accounts Receivables Aging
- (15) Borrower Bond Ratings and Accounts Receivable Status